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wsL western supplies limited
ANNUAL REPORT
for the year ending January 31, 1974

WSL WESTERN SUPPLIES LIMITED

14635 - 121A AVENUE, EDMONTON, ALBERTA

DIRECTORS

J. Alexander
M. L. Cosgrove
L. C. Ecklund
T. A. Graham
W. A. Graham
F. R. Godfrey
I. T. Hay
P. L. P. Macdonnell, Q.C.
L. C. Reise
H. W. Skaret
W. R. Taprell

TRANSFER AGENT AND REGISTRAR

Class "A" Shares
National Trust Company, Limited
Edmonton, Toronto, Vancouver

AUDITORS

Peat, Marwick, Mitchell & Co.,
25th Floor, 10020 - 100 Street,
Edmonton, Alberta

OFFICERS

T. A. Graham, *Chairman of the Board*
W. A. Graham, *President*
J. Alexander, *Vice-President*
L. C. Ecklund, *Vice-President*
L. C. Reise, *Vice-President*
H. W. Skaret, *Vice-President*
F. R. Godfrey, *Secretary-Treasurer*

BANKERS

Canadian Imperial Bank of Commerce

ANNUAL MEETING

The annual meeting of shareholders will be held at the company Head Office on Monday, May 27, 1974, at 11:30 a.m.

VICTORIA • ABBOTSFORD • CHILLIWACK • NEW WESTMINSTER • RICHMOND HILL
VANCOUVER • KAMLOOPS • VERNON • KELOWNA • PENTICTON • CRANBROOK
PRINCE GEORGE • DAWSON CREEK • GRANDE PRAIRIE • FT. McMURRAY • EDMONTON
RED DEER • CALGARY • SASKATOON • REGINA • WINNIPEG • THUNDER BAY • HAMILTON
BRANTFORD • LONDON • BELLEVILLE • WOODSTOCK
WELLAND • TORONTO • ST. THOMAS

ANNUAL REPORT TO THE SHAREHOLDERS

TO: THE SHAREHOLDERS

The Board of Directors is pleased to present the following report which, with the accompanying consolidated financial statements, summarizes the activities of Western Supplies Limited and its subsidiaries for the fiscal year ended January 31, 1974.

OPERATING RESULTS

During the year both sales and profits attained record levels with Western Canada making a particularly significant contribution to the excellent results. Consolidated net earnings after provision for depreciation and taxes amounted to \$1,748,631 as compared with \$806,476 for the preceding year. Earnings available for dividends on the Class A and Class B shares amounted to \$6.47 per share as compared with \$2.99 in the preceding year. The regular dividend of 75¢ per share, together with an extra dividend of 25¢ per share, were declared on the Class A shares and earnings available to pay this dividend amounted to \$14.57 per share as compared with \$6.72 the previous year. Dividends totalling \$1.00 per share were also declared on the Class B shares. As the Company elected to pay the 15% tax on a portion of its 1971 undistributed income on hand the dividends on both the Class A and Class B shares were tax free.

EXPANSION

During the year new branches were opened in Richmond and Cranbrook, British Columbia, to provide service for these growing communities. In addition, a combined branch of the Company and its subsidiary, Westlund Industrial Supply Ltd., was opened at Fort McMurray, Alberta, where activity surrounding the major development of the Athabasca oil sands is presently centred. During the year negotiations were completed for the purchase of all the outstanding shares of Quality Utilities Limited, an Ontario company engaged in the same general business as the Company with branches in Richmond Hill, Orillia, Lindsay, Collingwood and Oshawa. This purchase has now been completed and the areas served by the new subsidiary will supplement those presently served by the Company in Ontario. The existing management of Quality Utilities Limited will continue to be responsible for its operations.

GENERAL

During the period the complete computerization of all accounts payable, invoicing and inventory management, now centralised in Edmonton, proved to be an essential step in dealing with the increased volume of business. Although shortages of materials and supplies caused some concern, the Company's long association with most of its suppliers lessened the impact of what might have been a serious problem very considerably and the Company gratefully acknowledges the co-operation and assistance it received from its suppliers during a difficult period.

OUTLOOK

The year 1973 was one of strength in the Canadian economy generally and although it is clear that in 1974 the economy faces major uncertainties, on the basis of the first quarter results the Company anticipates a further increase in sales and earnings as activity in the construction and industrial sectors continues to increase.

EMPLOYEES

The Directors and Officers would like to take this opportunity to express their appreciation to all employees for their help in making the past year a very successful one for the Company.

On behalf of the Board of Directors.

Chairman

President

Western Supplies Limited and Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended January 31, 1974

(with comparative figures for 1973)

	1974	1973
Sales (net)	\$44,712,720	32,908,138
Operating profit before depreciation and amortization	3,741,572	1,332,296
Depreciation and amortization (note 1)	134,478	120,436
Operating profit	3,607,094	1,211,860
Other income:		
Rental income, net	25,322	27,243
Profit on sale of fixed assets	19,528	—
	44,850	27,243
	3,651,944	1,239,103
Other charges:		
Interest on long-term debt	65,121	68,738
Net earnings before income taxes and extraordinary item	3,586,823	1,170,365
Income taxes	1,838,192	572,505
Net earnings before extraordinary item	1,748,631	597,860
Extraordinary item — gain on sale of properties	—	238,616
Less deferred income taxes	—	(30,000)
	—	208,616
Net earnings	\$ 1,748,631	806,476
Earnings per outstanding Class A and B share:		
Net earnings before extraordinary item	\$ 6.47	2.22
Extraordinary item	—	.77
Net earnings per share	\$ 6.47	2.99

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended January 31, 1974

(with comparative figures for 1973)

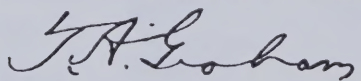
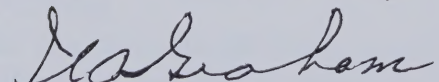
	1974	1973
Balance at beginning of year	\$ 5,297,179	4,693,203
Add:		
Net earnings	1,748,631	806,476
Transfer of contributed surplus on liquidation of subsidiary company	27,340	—
	7,073,150	5,499,679
Deduct:		
Dividends on Class A shares	120,000	90,000
Dividends on Class B shares	150,000	112,500
15% tax paid on undistributed income	15,000	—
	285,000	202,500
Balance at end of year	\$ 6,788,150	5,297,179

See accompanying notes to consolidated financial statements.

WESTERN SUPPLIES LIM

Consolidated Balance Sheet

(with comparative)

ASSETS	1974	1973
CURRENT ASSETS:		
Cash	\$ —	238,303
Accounts receivable, less allowance for doubtful accounts	8,299,106	5,114,325
Inventories of merchandise, at the lower of cost or estimated realizable value	8,305,969	5,929,475
Prepaid expenses	13,513	19,031
Total current assets	16,618,588	11,301,134
CASH SURRENDER VALUE OF LIFE INSURANCE	42,090	39,626
8% AGREEMENT FOR SALE RECEIVABLE, less amount due within one year	179,835	187,450
PROPERTY, PLANT AND EQUIPMENT, at cost less depreciation and amortization:		
Buildings	1,217,832	1,192,053
Furniture, fixtures and other equipment	526,044	508,014
Automotive	207,935	170,223
Other	118,356	97,035
	2,070,167	1,967,325
Less accumulated depreciation and amortization	1,201,975	1,112,842
	868,192	854,483
Building under construction	—	76,868
Land	289,278	307,056
Net property, plant and equipment	1,157,470	1,238,407
UNAMORTIZED DEBT DISCOUNT AND EXPENSE	17,559	19,458
GOODWILL, at cost less accumulated amortization (note 1)	396,000	418,000
On behalf of the Board:		
 Director		
 Director		
	<u>\$18,411,542</u>	<u>13,204,075</u>

See accompanying notes to consolidated financial statements.

D AND SUBSIDIARIES

et, January 31, 1974

ures for 1973)

LIABILITIES AND SHAREHOLDERS' EQUITY

1974

1973

CURRENT LIABILITIES:

Due to bank, secured (note 2):

Outstanding cheques less cash in bank

\$ 471,158

—

Notes payable

3,403,000

3,656,000

3,874,158

3,656,000

Accounts payable and accruals

5,111,664

2,684,203

Current maturities on long-term debt (note 3)

161,147

71,700

Dividends payable

168,750

157,500

Income taxes payable

1,208,188

49,165

Total current liabilities

10,523,907

6,618,568

LONG-TERM DEBT less current maturities (note 3)

743,823

905,326

DEFERRED INCOME TAXES

30,000

30,000

SHAREHOLDERS' EQUITY (note 3):

Capital stock (note 4):

Authorized:

120,000 Class A shares without nominal or par value
and 340,000 Class B shares without nominal or
par value, issuable for a maximum considera-
tion of \$1,200,000

Issued:

120,000 Class A shares

69,536

69,536

150,000 Class B shares

256,126

256,126

325,662

325,662

Contributed surplus

—

27,340

Retained earnings

6,788,150

5,297,179

Total shareholders' equity

7,113,812

5,650,181

\$18,411,542

13,204,075

Western Supplies Limited and Subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended January 31, 1974

(with comparative figures for 1973)

	1974	1973
Funds provided:		
From operations:		
Net earnings	\$ 1,748,631	806,476
Add net charges not requiring cash expenditure, principally depreciation and amortization	113,372	119,713
Deduct net gain on sale of property	—	(208,616)
	<hr/>	<hr/>
Funds provided from operations	1,862,003	717,573
Long-term notes and agreements payable	—	300,000
Proceeds from disposal of fixed assets	142,910	451,507
Class B shares issued	—	175,000
Mortgage assumed	—	45,393
Reduction in agreement for sale receivable	7,615	562
	<hr/>	<hr/>
Total funds provided	2,012,528	1,690,035
Funds used:		
Purchase of fixed assets	151,445	312,466
Reduction of long-term debt	161,503	158,546
Dividends on Class A and Class B shares	270,000	202,500
Increase in agreement for sale receivable	—	188,012
Purchase of goodwill	—	360,729
Tax paid on undistributed income	15,000	—
Other	2,465	—
	<hr/>	<hr/>
Total funds used	600,413	1,222,253
	<hr/>	<hr/>
Increase in working capital	1,412,115	467,782
Working capital at beginning of year	4,682,566	4,214,784
	<hr/>	<hr/>
Working capital at end of year	<u>\$ 6,094,681</u>	<u>4,682,566</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1974

1. The statements consolidate the accounts of all subsidiary companies. The company is following the policy of amortizing all goodwill arising on acquisitions over a period of twenty years and accordingly, an amount of \$22,000 has been written off during the current year and is included in depreciation and amortization expense.
2. Due to bank:
The amount due to bank is secured by general assignments of accounts receivable and assignment of fire insurance on stock and fixtures.
3. Long-term debt:
Long-term debt at January 31, 1974 consists of:

	Total Amount	Current Maturities
6½% secured debentures, Series B, due May 1, 1983	\$550,000	55,000
8% note payable, annual payments of \$60,000 due 1974 to 1977	240,000	60,000
Agreement and mortgages payable	114,970	46,147
	<u>904,970</u>	<u>161,147</u>
Deduct current maturities	161,147	
	<u>\$743,823</u>	

Sinking fund payments required under terms of the debentures outstanding are \$55,000 in each of the calendar years 1974 to 1982.

The trust deed securing the debentures imposes certain restrictions on the payment of dividends and upon the redemption or reduction of the capital of the company.

4. Capital stock:
The Class A shares are entitled to fixed, cumulative, preferential dividends at the rate of \$.75 per share per annum; after like non-cumulative dividend on Class B shares is paid, are participating; are non-voting (except that the holders are entitled to elect two directors so long as not less than 20,000 Class A shares are outstanding) unless the company is in arrears in the aggregate of four semi-annual dividends; and are convertible at the option of the holder, at any time, into Class B shares without nominal or par value, at the rate of one (1) Class B share for each Class A share and the provisions attached to the Class A shares provide for an appropriate adjustment in the conversion rate in the event of subdivision or consolidation of the Class B shares. The company has reserved 120,000 of the authorized but unissued Class B shares for conversion of the Class A shares.
5. Remuneration of directors and senior officers:
Fees and other remuneration of directors and senior officers totalled \$573,908 for the year ended January 31, 1974.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Western Supplies Limited and subsidiaries as of January 31, 1974 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at January 31, 1974 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta,
March 25, 1974.

Pest, Mannick, Mitchell & Co.

Chartered Accountants.

TEN YEAR SUMMARY

(In Thousands of Dollars except net earnings per share)

INCOME STATISTICS	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Sales	\$ 44,713	32,908	24,324	22,153	23,964	23,150	22,995	22,582	20,897	19,372
Earnings before income taxes	3,587	1,170	911	126	690	485	669	760	804	586
Income taxes	1,838	573	456	69	350	277	325	373	367	320
Net earnings (see note (1))	1,749	806(1)	455	57	340	208	344	387	437	266
Per share	\$ 6.47	2.99	1.75	.22	1.31	.80	1.32	1.48	1.68	1.02
Dividends	270	202	195	160	90	195	195	160	146	90
Per Class "A" share	120	90	90	90	90	90	90	90	90	90
Per Class "B" share	150	112	105	70	—	105	105	70	56	—
BALANCE SHEET STATISTICS	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Current assets	\$ 16,619	11,301	9,005	8,489	9,021	8,615	8,004	8,282	8,759	7,701
Current liabilities	10,524	6,619	4,790	4,461	4,803	4,643	3,976	4,367	4,978	4,130
Working capital	6,095	4,682	4,215	4,028	4,218	3,972	4,028	3,915	3,781	3,571
Ratio of current assets to current liabilities	1.6	1.7	1.9	1.9	1.9	1.9	2.0	1.9	1.8	1.9
Fixed assets (net)	1,157	1,238	1,241	1,172	1,164	1,275	1,239	1,258	1,269	1,288
Long term debt	744	905	718	712	793	913	963	1,024	1,094	1,194
Total shareholders' equity	7,114	5,650	4,871	4,611	4,714	4,464	4,451	4,302	4,095	3,804

(1) Net Earnings for 1973 include extraordinary earnings of \$209,000.

